

TESTIMONY OF INTERIM INSPECTOR GENERAL  
AUSTIN A. ANDERSEN  
BEFORE THE D.C. COUNCIL  
COMMITTEE ON GOVERNMENT OPERATIONS  
FISCAL YEAR 2005 BUDGET REVIEW

APRIL 2, 2004

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CHAIRMAN ORANGE AND MEMBERS OF THE COMMITTEE: I AM PLEASED TO TESTIFY TODAY CONCERNING THE PROPOSED FISCAL YEAR (FY) 2005 BUDGET FOR THE OFFICE OF THE INSPECTOR GENERAL (OIG). SEATED WITH ME ARE WILLIAM DIVELLO, THE ASSISTANT IG FOR AUDITS; ROBERT ANDARY, ASSISTANT IG FOR INVESTIGATIONS; ALVIN WRIGHT, ASSISTANT IG FOR INSPECTIONS AND EVALUATIONS; AND SUSAN KENNEDY, DIRECTOR OF THE MEDICAID FRAUD CONTROL UNIT (MFCU).

**PROPOSED FY 2005 BUDGET**

OUR TOTAL REQUESTED OPERATING BUDGET FOR FY 2005 WAS \$11.5 MILLION TO SUPPORT 108 FULL-TIME EMPLOYEES (FTE). THE MAYOR'S PROPOSED BUDGET IS \$11.3, WHICH CONSISTS OF \$10 MILLION IN LOCAL FUNDS TO SUPPORT 96 FTEs AND \$1.2 MILLION IN FEDERAL FUNDING TO SUPPORT 12 FTEs. THE \$200,000 DIFFERENCE CONSISTS OF A \$170,000 CUT IN PERSONAL SERVICES, WHICH REPRESENTS THE ANTICIPATED 2.5% PAY ADJUSTMENT FOR NONUNION EMPLOYEES, AND \$30,000 IN NONPERSONAL SERVICES. THESE CUTS WILL BE ABSORBED THROUGH ATTRITION AND REDUCTIONS TO TRAINING.

**THE NONDISCRETIONARY BUDGET**

A BRIEF ANALYSIS OF THE OIG BUDGET REVEALS THAT SEVERAL MILLION DOLLARS OF OUR FUNDING IS DESIGNATED FOR MATTERS OVER WHICH WE HAVE LITTLE CONTROL. FUNCTIONS REQUIRED BY LAW INCLUDE THE FOLLOWING:

- THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR), WHICH IS CONTRACTED TO A PRIVATE AUDITING FIRM
- AUDIT OF THE HIGHWAY TRUST FUND
- AUDIT OF PROCUREMENT AND CONTRACT ADMINISTRATION
- AUDIT OF THE HOME PURCHASE ASSISTANCE FUND
- AUDIT OF THE HIGHWAY TRUST FUND 5-YEAR FORECAST
- AUDIT OF THE ANTIFRAUD FUND OF THE CORPORATION COUNSEL
- AUDIT OF THE PROFESSIONAL ENGINEERS FUND
- REVIEW AND REPORT OF ANALYSIS OF ALL CANCELLATIONS OF CONTRACTS AND SOLICITATIONS
- MAINTAIN A LIVE COMPLAINT HOTLINE
- REFERRAL OF CRIMINAL ALLEGATIONS TO THE U.S. ATTORNEY'S OFFICE (USAO) AND CONDUCT INVESTIGATIONS AS NECESSARY

#### **EFFECT OF BUDGET CUTS**

ALTHOUGH CONGRESSIONAL LEGISLATION PROTECTS THE INSPECTOR GENERAL'S BUDGET REQUEST AS A MEANS OF ENSURING INDEPENDENT AND EFFECTIVE OVERSIGHT OPERATIONS, THE RECORD WILL SHOW THAT OUR OFFICE HAS BEEN VERY COOPERATIVE IN HELPING THE CITY STAY WITHIN BUDGET CONSTRAINTS. DURING THE LAST 4 FISCAL YEARS, WE AGREED TO BUDGET REDUCTIONS WHICH, IN TOTAL, REPRESENT A 20 PERCENT REDUCTION FROM OUR FY 2001 BUDGET ESTIMATE. THESE PAST REDUCTIONS HAVE ALL BUT ELIMINATED DISCRETIONARY FUNDING SO THAT ANY FURTHER CUTS NOW IMPACT PERSONAL SERVICE SPENDING AND RESOURCES THAT, IN FACT, RETURN TO THE CITY MORE MONEY THAT ACTUALLY EXPENDED. DURING FY 2003 ALONE, OUR OPERATIONS RECOVERED ABOUT \$14 MILLION DOLLARS, WITH HALF OF THE FUNDS BEING RETURNED TO THE D.C. TREASURY AND THE OTHER HALF TO THE U.S. TREASURY.

ADDITIONAL CUTS TO THE MAYOR’S PROPOSED BUDGET WOULD NOT BE MANAGEABLE WITHOUT ELIMINATING FTEs AND IMPLEMENTING A REDUCTION IN FORCE. REDUCING PERSONNEL COULD AFFECT OUR ABILITY TO FULFILL THE REQUIREMENTS PLACED ON OUR ORGANIZATION BY FORCE OF LAW, I.E., REFERRAL OF CRIMINAL VIOLATIONS TO THE U.S. ATTORNEY’S OFFICE, INVESTIGATIONS OF THOSE REFERRALS, AND SEVERAL SPECIALIZED AUDITS. IN ADDITION, OUR AUDITORS, INSPECTORS, AND INVESTIGATORS PLAY A VITAL ROLE IN ENSURING THE DISTRICT’S FISCAL INTEGRITY, ESPECIALLY THROUGH OUR INDEPENDENT OVERSIGHT OF THE CAFR REPORTS AND OUR ROLE IN ADVISING THE CITY’S BOND UNDERWRITERS AND OTHER STAKEHOLDERS OF THE DISTRICT’S CONTINUED FINANCIAL STRENGTH.

OUR COMBINED RESOURCES ARE NOW ENGAGED IN COVERING MANY OF THE MOST PROMINENT ISSUES AND PERVASIVE PROBLEMS FACING THE CITY, SUCH AS LEAD CONTENT IN THE WATER, SCHOOL SECURITY, CHILD AND FAMILY SERVICES, MENTAL HEALTH CARE, PROCUREMENT, COMMUNITY DEVELOPMENT, MEDICAID REIMBURSEMENTS, AND ABUSE OF VULNERABLE ADULTS, JUST TO MENTION A FEW.

AT THIS POINT, I WILL ADDRESS THE ACCOMPLISHMENTS OF EACH OF OUR FOUR OPERATING DIVISIONS.

#### **AUDIT DIVISION**

FOR EXAMPLE, IN THE AUDIT DIVISION, WE NOT ONLY EXCEEDED OUR PERFORMANCE GOALS, BUT WE CONTINUE TO REFINE AUDIT PROCESSES, TO INCLUDE AUDIT PLANNING, EXECUTION, AND REPORTING. THE RESULTS OF THESE ENHANCEMENTS CONTRIBUTED SIGNIFICANTLY TO THIS DIVISION’S PASSING OF ITS FIRST PEER REVIEW, AND ALSO HELPED TO IMPROVE THE TIMELINESS OF AUDITS PERFORMED.

FOR FY 2003 WE ISSUED 37 AUDIT REPORTS COVERING 23 DISTRICT AGENCIES. FROM THESE AUDITS, WE ACHIEVED OVER \$48 MILLION IN POTENTIAL MONETARY BENEFITS. COMPARING THESE BENEFITS TO AUDIT DIVISION COSTS OF APPROXIMATELY \$2.7 MILLION, THE RETURN ON INVESTMENT FOR AUDITS PERFORMED BY OUR STAFF HAS BEEN APPROXIMATELY \$18 FOR EACH DOLLAR INVESTED. WE ARE ALSO PLEASED THAT MANY OF OUR AUDIT REPORTS AND MUCH OF OUR AUDIT WORK HAVE BEEN RECOGNIZED AND PUBLISHED IN NEWSLETTERS OF NATIONAL PROFESSIONAL ORGANIZATIONS, SUCH AS THE ASSOCIATION OF INSPECTORS GENERAL AND THE NATIONAL ASSOCIATION OF LOCAL GOVERNMENT AUDITORS.

AS YOU KNOW, WE WILL SOON EXECUTE THE FOURTH AND LAST OPTION OF OUR CONTRACT WITH THE ACCOUNTING FIRM OF KPMG, LLP, TO PERFORM A FINANCIAL STATEMENT AUDIT FOR THE DISTRICT'S FY 2004 CAFR. THE FY 2003 AUDIT RENDERED AN UNQUALIFIED OPINION, MEANING THAT THE DISTRICT'S GENERAL PURPOSE FINANCIAL STATEMENTS WERE FAIRLY PRESENTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

WE HAVE ALSO BEGUN PROCUREMENT PLANNING AND PREPARATION TO ISSUE A REQUEST FOR PROPOSAL FOR THE SOLICITATION OF BIDS FOR THE NEXT CAFR CONTRACT, AND WE PLAN TO ISSUE THE RFP IN THE FIRST QUARTER OF FY 2005. AS CHAIR OF THE CAFR OVERSIGHT COMMITTEE, WE CONTINUE TO OVERSEE THE PROGRESS OF THE AUDIT AND TO ADDRESS ANY ISSUES THAT MAY ARISE OR MAY PREVENT THE AUDIT FROM BEING COMPLETED ON TIME.

#### **INSPECTIONS AND EVALUATIONS DIVISION**

DURING FISCAL YEAR 2003, THE INSPECTIONS AND EVALUATIONS DIVISION (I&E) COMPLETED INSPECTIONS OF FOUR OF THE DISTRICT'S

MOST IMPORTANT AGENCIES: THE DEPARTMENT OF CORRECTIONS; FIRE AND EMERGENCY MEDICAL SERVICES; THE DEPARTMENT OF HEALTH; AND THE OFFICE OF THE CHIEF MEDICAL EXAMINER. IN ADDITION, THE DIVISION RE-INSPECTED THE DEPARTMENT OF MOTOR VEHICLES, THE VEHICLE INSPECTION STATION, AND THE MEDICAL ASSISTANCE ADMINISTRATION. I&E ALSO BEGAN A COMPREHENSIVE, LONG-TERM INSPECTION OF THE DEPARTMENT OF HUMAN SERVICES' YOUTH SERVICES ADMINISTRATION.

THIS SMALL STAFF OF MANAGEMENT ANALYSTS CONTINUES TO PROVIDE SIGNIFICANT FINDINGS AND RECOMMENDATIONS REGARDING EFFICIENCY AND EFFECTIVENESS IN KEY CITY AGENCIES AT COSTS SIGNIFICANTLY LESS THAN FEES CHARGED BY PRIVATE CONTRACTORS. THE COST TO THE DISTRICT TO PERFORM A COMPREHENSIVE OIG INSPECTION AND EVALUATION IS ABOUT ONE-THIRD THAT CHARGED FOR COMPARABLE WORK BY CONTRACTORS AND CONSULTANTS. OUR INSPECTIONS FOCUS ON AREAS THAT WILL HAVE THE GREATEST IMPACT ON AGENCY OPERATIONS AND THE HIGHEST RETURN ON OUR INVESTMENT OF RESOURCES. THEY ARE A COST-EFFECTIVE METHOD FOR ALERTING THE MAYOR AND THE COUNCIL TO SIGNIFICANT PROBLEMS, FOR ASSISTING CITY AGENCIES IN ASSESSING THEIR STRENGTHS AND WEAKNESSES, FOR MEASURING THE EFFECTIVENESS OF AN AGENCY'S INTERNAL CONTROLS, AND FOR RECOMMENDING ADJUSTMENTS THAT CAN IMPROVE CRITICAL OPERATIONS.

### **INVESTIGATIONS DIVISION**

IN THE LAST FISCAL YEAR THE INVESTIGATIONS DIVISION REFERRED 59 CASES TO THE OFFICE OF THE UNITED STATES ATTORNEY FOR POSSIBLE PROSECUTION. OF THESE CASES, 42 WERE ACCEPTED FOR FURTHER INVESTIGATION. IN ADDITION, NINE CASES WERE PRESENTED TO THE OFFICE OF CORPORATION COUNSEL FOR PROSECUTION UNDER LAWS

WITHIN THE JURISDICTION OF THAT OFFICE. THE INVESTIGATIONS CONDUCTED BY OIG SPECIAL AGENTS (ALONE OR IN COOPERATION WITH OTHER LAW ENFORCEMENT AGENCIES) RESULTED IN 8 CONVICTIONS AND A TOTAL OF \$350,317 IN RESTITUTION, FINES, AND RECOVERIES TO THE DISTRICT IN FY 2003.

THE INVESTIGATIONS DIVISION CONTINUES TO BE HEAVILY INVOLVED IN CRIMINAL INVESTIGATIONS IN COOPERATION WITH THE USAO. TO DATE IN FY 2004, TWO CONVICTIONS HAVE RESULTED FROM THESE INVESTIGATIONS. FIVE MORE DEFENDANTS HAVE BEEN FOUND GUILTY, AND AWAIT SENTENCING. IN ADDITION, SEVERAL OF OUR INVESTIGATORS ARE WORKING ALMOST FULL TIME ON PENDING PROSECUTIONS.

ANOTHER IMPORTANT COMPONENT OF OUR EFFORTS TO DETER FRAUD, WASTE AND ABUSE IS THE DIVISION'S REFERRAL PROGRAM, BY WHICH WE REFER ADMINISTRATIVE MATTERS TO OTHER DEPARTMENTS AND AGENCIES THAT CAN BEST ADDRESS THOSE MATTERS. IN FY 2003 THE OIG REFERRED A TOTAL OF 168 MATTERS TO 33 DISTRICT AGENCIES. TO DATE, IN FY 04, THE OIG HAS REFERRED 77 MATTERS TO DISTRICT AGENCIES. IN MOST CASES, THE OIG MONITORS THE RESPONSES TO THESE REFERRALS TO ENSURE THAT THE MATTERS ARE HANDLED APPROPRIATELY. THE FOCUS OF THE REFERRAL PROGRAM IS TO HOLD AGENCY HEADS ACCOUNTABLE FOR ADDRESSING ALLEGED MISMANAGEMENT AND INEFFICIENCY WITHIN THEIR AGENCIES.

#### **MEDICAID FRAUD CONTROL UNIT**

AS A CERTIFIED MEDICAID FRAUD CONTROL UNIT (MFCU), THE UNIT AT THE OIG RECEIVES 75 PERCENT OF ITS FUNDING IN THE FORM OF A GRANT FROM THE U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (DHHS), OFFICE OF INSPECTOR GENERAL (OIG).

THE MFCU CONCENTRATES MUCH OF ITS RESOURCES ON FINANCIAL FRAUD AGAINST THE MEDICAID PROGRAM. CURRENTLY, WE HAVE APPROXIMATELY 61 ONGOING FRAUD INVESTIGATIONS, INCLUDING 27 MATTERS THAT WERE OPENED DURING FY 2003.

IN FY 2003 THE MFCU WAS CREDITED WITH RECOVERIES OF MORE THAN \$13 MILLION. ONE KEY ACHIEVEMENT INVOLVED FUNDS RECOVERED FROM FIRST HEALTH SERVICES, INC. AS REIMBURSEMENT FOR FUNDS LOST DUE TO FILING OF FALSE CLAIMS WITH THE MEDICAID PROGRAM. THIS INDIVIDUAL RECOVERY ALONE FAR EXCEEDS THE OIG'S ANNUAL BUDGET.

WE ANTICIPATE SUBSTANTIAL MONETARY RECOVERIES IN FY 2004 AS WELL. SEVERAL PENDING MATTERS ARE CURRENTLY AT THE USAO AWAITING PROSECUTION, AND NUMEROUS ONGOING INVESTIGATIVE MATTERS ARE AT A POINT WHERE RESOLUTION IS IMMINENT. IN FACT, THE MFCU HAS ALREADY RECOUPED MORE THAN \$1 MILLION SINCE THE START OF THE FISCAL YEAR.

A SECOND IMPORTANT AREA ADDRESSED BY THE MFCU IS ABUSE OR NEGLECT OF PERSONS IN MEDICAID-FUNDED FACILITIES, SUCH AS NURSING HOMES, GROUP HOMES AND BOARD AND CARE FACILITIES. IN FY 2003, WE RECEIVED REPORTS OF 973 UNUSUAL INCIDENTS. AS A RESULT OF THESE INCIDENT REPORTS, 23 NEW ABUSE CASES WERE INITIATED IN 2003. ONE PHYSICAL ABUSE AND ONE SEXUAL ABUSE CASE WERE PROSECUTED TO CONVICTION IN FY 2003. WE ARE CURRENTLY WORKING ON 41 MATTERS INVOLVING ABUSE OR NEGLECT OF VULNERABLE ADULTS.

YET ANOTHER ASPECT OF THE MFCU'S EFFORTS TO COMBAT ABUSE OF VULNERABLE PERSONS IS THE INVESTIGATION AND PROSECUTION OF FINANCIAL ABUSE AND EXPLOITATION MATTERS. THE UNIT IS CURRENTLY INVESTIGATING SIX MATTERS INVOLVING THEFT OR MISUSE OF FUNDS. ONE CASE OF THEFT OF PATIENT FUNDS WAS PROSECUTED TO CONVICTION IN FY 2003.

### **CONCLUSION**

I AM MINDFUL OF THE BUDGET SHORTFALLS FACED BY THE DISTRICT EACH YEAR, AND I BELIEVE THAT THE SUCCESSIVE CUTS TO OUR BUDGET SINCE FY 2001 SYMBOLIZE OUR RESOLVE TO DO OUR PART TO ACCOMPLISH SAVINGS. HOWEVER, THE MORE SIGNIFICANT CONTRIBUTION THAT WE MAKE IS FOUND IN THE RESULTS OF OUR WORK: RETURNING DOLLARS TO THE TREASURY; IDENTIFYING MONETARY BENEFITS THAT WILL ACCRUE YEAR AFTER YEAR; IMPROVING OPERATIONAL EFFICIENCY THROUGH MANAGEMENT INSPECTIONS AND AUDITS; AND FERRETING OUT FRAUD, WASTE, AND ABUSE IN CRITICAL GOVERNMENT OPERATIONS. FOR THESE REASONS, I BELIEVE THAT FUNDING FOR OUR AGENCY REPRESENTS MONEY WELL SPENT.

AT THIS TIME, I WILL BE HAPPY TO ANSWER QUESTIONS CONCERNING OUR BUDGET.